



# WHAT FUTURE EUROPEAN DEFENCE AND TECHNOLOGICAL INDUSTRIAL BASIS (EDTIB) DO WE WANT/NEED?

## The German case

Leonard Schütte / Senior Researcher,  
Munich Security Conference

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## ABOUT THE AUTHOR



**Leonard Schütte** / Senior Researcher  
Munich Security Conference

Leonard Schütte is Senior Researcher at the Munich Security Conference. As part of the Publications & Research Team, he contributes to the Munich Security Report, Munich Security Briefs, and other publications. Leonard is also Fellow at the Centre for International Security at the Hertie School in Berlin. Leonard Schütte has published academic articles, policy briefs and opinion pieces on European security order, EU foreign policy, NATO, and international organisations.



The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (IRIS), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

## CONTACT

Edited by Gaspard Schnitzler, Senior Research Fellow, IRIS  
[ares@iris-france.org](mailto:ares@iris-france.org)  
+33 (0)1 53 27 60 60

[iris-france.org/ares](https://iris-france.org/ares)  
#ARESGroup



@AresGroup\_EU



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## ABSTRACT

Russia's war against Ukraine has upended Germany's core foreign and defence policy beliefs. This paper analyses the war's impact on Germany's European defence industrial policy. To do so, it zooms in on Berlin's spending and procurement choices since February 2022, national defence industrial strategy, and position on recent initiatives by the EU. Germany's response to the war has hitherto largely been dominated by short-term concerns to fill glaring capability gaps at the expense of longer-term considerations for the future of the European Defence and Technological Industrial Base.

**Keywords:** German defence | defence industry | EDTIB

Russia's attack on Ukraine on 24 February 2022 sent tremors through Berlin. Having long clung to obsolete beliefs about Russia's peaceful trajectory and the longevity of the European security order, the war at last forced German decision makers to come to terms with the new security environment in Europe. In his famous "Zeitenwende" speech, delivered three days after the onset of the war, Chancellor Scholz recognised that "we are living through a watershed era. And that means that the world afterwards will no longer be the same as the world before." The country, however, was ill-equipped for this new era. Once German decision makers overcame initial hesitation and mustered the will to support Ukraine with military equipment to defend itself against Russia, they found the Bundeswehr and its arsenals in a sorry state, the national defence industry scaled down, and the defence ministry's procurement agency largely dysfunctional.

For German defence policy standards, profound reforms followed. Chancellor Scholz announced the creation of a special military fund (*Sondervermögen*) worth 100 billion euros to close critical capability gaps. Boris Pistorius became new defence minister in January 2023, replacing his lacklustre predecessor. He quickly set out to upend the processes and working culture at the defence ministry and its procurement agency, decreeing in April 2023 that "with immediate effect, the factor time shall have the highest priority" in procurement decisions. The governing coalition also realised its pre-war promise to draft Germany's first National Security Strategy (NSS) – which was published in June 2023 after a cumbersome process – to provide strategic direction.

However, the European dimension hitherto appears conspicuously absent from the German response to the "Zeitenwende". The biggest items on the special fund's shopping list are US systems. Germany is also widely perceived to play a rather passive role in shaping the EU's defence initiatives launched or proposed in the wake of the war.<sup>1</sup> The vague treatment of European defence policy in the NSS reinforces this impression. Indeed, the German response to the "Zeitenwende" reflects its traditionally ambivalent approach to European defence. Germany has long been a "power without cause" (Biermann and Weiss, 2021) in European defence integration. While Germany has become somewhat more active in pushing EU defence cooperation since Brexit, Berlin's "rhetorical pro-integrationist stance [...] is rarely backed up by consistent efforts to turn it into practice" (Bunde, 2021: 252).

As the EU's largest defence spender (in absolute terms) and home to some of Europe's largest defence companies, and given its declared ambition to revive its military might, German decisions will have a profound impact on the future of the European Defence and

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<sup>1</sup> Interviews with officials, April 2023.

Technological Industrial Base (EDTIB). Drawing on background interviews with German officials in Brussels and Berlin and recent strategy documents, this paper therefore zooms in on Germany's arms procurement choices in response to the war, its national defence industrial strategy, and approach toward recent EU initiatives to distil the German perspective on the future of the EDTIB. It concludes that the combination of uncertain long-term defence funding, the neglect of the role of the EU, a reluctance to resort to industrial strategy, and an understandable short-term focus currently prevents Germany from pursuing a clear, overall strategy for the future of the EDTIB.

## GERMAN DEFENCE SPENDING AND PROCUREMENT SINCE FEBRUARY 2022

Since the end of the Cold War, Germany has been reaping the peace dividend by structurally underfunding the Bundeswehr (Dorn and Schlepper, 2023). To close some of the resulting capability gaps, Chancellor Scholz announced on 27 February 2022 the creation of the special fund to provide financing of 100 billion euro for major procurement projects. In addition, he pledged to increase the regular defence budget to meet NATO's two-percent goal. Contrary to these suggestions, the regular defence budget, however, will merely increase from 50,4 billion euro in 2022 to 51,8 billion euro by 2024 according to the latest budgetary plans. To reach 2 percent of GDP in 2024 (around 85 billion euro), the government intends to spend almost 20 billion from the special fund and also include other defence-relevant spending from outside the regular budget, such as arms supplies to Ukraine.

Eighteen months on from the announcement, the special fund's earmarked projects are more transatlantic than European. The NSS somewhat ambiguously pledged that "in terms of procurement, [Germany] will focus primarily on European solutions if this can be achieved without losing capabilities. Rapidly bridging capability gaps remains the crucial criterion" (Bundesregierung, 2023: 38). **In practice, considerations of speed – manifest in off-the-shelf orders from the US – have hitherto prevailed over European collaborations** (Mölling, 2023).

At the heart of the special fund is an order of 35 *F-35* fighter jets, for about 10 billion euros, to replace the ageing *Tornado* jets, ensuring that Germany will continue to be able to participate in NATO's nuclear-sharing (Wiegold, 2022). The German government has also decided to procure 60 *Chinook* heavy transport helicopters and eight *P-8 Poseidon* maritime patrol aircraft, both from US manufacturers. As part of Chancellor Scholz' announced

*European Sky Shield Initiative (ESSI)*, Germany will also further invest in US *Patriot* air defence systems and acquire the US-Israeli *Arrow-3* system. Some European collaborative projects are also supposed also be financed via the special fund, including the *Franco-German Future Combat Air System (FCAS)*, the Franco-German *Main Ground Combat System (MGCS)*, and the *Eurodrone (MALE RPAS)*. Major orders from German suppliers include the *Braunschweig*-class Corvette, upgrading *Puma* infantry fighting vehicles, or new *Boxer* armoured fighting vehicles.

France, but also Italy and other EU Member States have criticised this apparent neglect of European manufacturers, pointing to alternative European projects for *Patriot* systems or maritime patrol aircraft, for example. **Indeed, German officials concede that implications for the EDTIB played a negligible role in the decision making.**<sup>2</sup> There is thus a distinct risk that Germany's responses to Russia's war actually exacerbate, rather than reduce, the fragmentation of the EDTIB (Koenig et al., 2023; Maulny, 2023).

Moreover, there are growing question marks looming over the two most important collaborative projects. The Franco-German-Spanish project to develop FCAS has been ridden with delays and disagreements among the major companies involved – Airbus and Dassault. The three governments did reach an agreement in late 2022 to enter the next program phase, but many Germans criticise Dassault's unwillingness to share sensitive technologies, fearing that FCAS will eventually produce a French aircraft, funded in significant parts by German taxpayers (Röhl, 2022). Moreover, the MCGS project is more than ever in doubt. While Minister Pistorius reaffirmed at a meeting with his French counterpart in September 2023 that “we want this joint project,” industry representatives have long expressed their lack of belief in the project. Rheinmetall, for instance, is developing an alternative to the MCGS (Murphy et al., 2023a). Both German officials and industry representatives have long complained that France benefits disproportionately from MCGS, given Germany's world leading industrial expertise on tanks. Recent press reports that Germany has launched a new “tank alliance” with Italy, Spain, and Sweden to develop a successor for the *Leopard 2* and apply for EDF funding could be the final nail in the coffin for the MCGS (Murphy et al. 2023b). This would likely involve repercussions for the Franco-German relationship and could further complicate FCAS.

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<sup>2</sup> Interviews with officials, August 2023.

## GERMAN NATIONAL DEFENCE INDUSTRIAL STRATEGY

Germany has traditionally pursued an arms-length approach toward the national defence industry. There are three reasons for this. First, Germany’s militarist past has rendered arms policy and the defence industry a sensitive subject in political debates, with most political elites reluctant to publicly engage with this (at least until recently) stigmatised industry. This has also meant that the German arms export regime is comparatively restrictive (Béraud-Sudreau et al., 2023). Second, the structure of the German defence industry has reinforced its separation from the state. Unlike in France or Poland, German defence industry is privately owned, and many companies are medium-sized. Only four German companies rank among the 100 largest defence players in the world: Rheinmetall (31<sup>st</sup>), ThyssenKrupp (55<sup>th</sup>), Hensoldt (69<sup>th</sup>), and Diehl (99<sup>th</sup>), though there are some significant transnational European companies with German shares like Airbus (15<sup>th</sup>) or KNDS (44<sup>th</sup>) (Béraud-Sudreau et al., 2022). Third, and interrelatedly, Germany has tended to treat its defence industry like any other sector, considering no outsized need for state interventions. In particular, tenders for procurement contracts have usually been competitive, with little discrimination against foreign suppliers.

However, already prior to the war, Germany recognised it needed a more strategic approach toward its defence industry. Building on its first iteration in 2015, the Grand Coalition between the Christian Democrats and the Social Democrats published a new strategy to support the national defence industry in 2020 (Bundesregierung 2020). Among other things, the strategy designated certain technologies as “key technologies,” which the German government wanted to keep in the country as a matter of national security interests. In doing so, it aimed to provide the basis for a more extensive resort to Article 346 (TFEU) – the national security exemption in the EU treaties that allows suspending EU competition rules in the procurement process – to support national manufacturers. Industry representatives complain, however, that this strategy is yet to translate into practice (Atzpodien, 2023); in 2021, a German court declared “a blanket reference to unspecified security interests” as insufficient (OLG Düsseldorf, 2021).

Russia’s war on Ukraine has had a significant impact on Germany’s defence policy principles. Most importantly, Germany shed its erstwhile policy axiom never to export weapons to countries at war.<sup>3</sup> Even traditionally staunch opponents of arms exports like the Green Party recognised the moral and strategic case for supplying weapons to Ukraine to defend itself. The current government also committed itself to updating its national arms export policy. In October 2022, the Federal Ministry of Economic Affairs and Climate Action published a draft

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<sup>3</sup> Note though that Germany also provided weapons to the Iraqi Peshmerga for their fight against Daech in 2014.

paper, setting out a number of reform proposals. These include facilitating and speeding up exports to members of the EU and NATO (and states Germany considers alike<sup>4</sup>), applying more ambitious human rights and democracy conditions, and using majority voting when deciding whether to export arms among European partners in cooperative projects. It also seeks to harmonise the patchwork of EU export policies. The trajectory of German arms export policy remains unclear, but there are signs that Germany will readjust the balance between restraint and using arms export as a strategic instrument toward the latter (Giegerich 2023). The governing coalition has also pledged to update the strategy on strengthening the national defence industry to take account of the implications of Russia’s war on Ukraine and to further strengthen the legal basis to use Article 346 TFEU more liberally (BMVg, 2022).<sup>5</sup>

In practice, the war has not yet prompted a new approach toward the national arms industry. Disconnects between the “MoD’s bureaucracy and the defence industry” as well as “politics and industry” remain (Mölling 2023). On the one hand, procurement processes remain cumbersome and slow, while a lack of understanding of the German arms industry persists among decision makers. A shortage of legal contracts and the concomitant uncertainty for the privately owned companies have hindered the industry’s efforts in ramping up production capacities and the special fund actually being spent (Aries et al., 2023). **Contrary to calls for the need for a “war economy”, implying greater state intervention and suspension of competition and procurement rules, Germany still appears operating largely in peacetime mode (e.g. Ischinger, 2023).** On the other hand, German defence industry has contributed to these disconnects, with many significant defence projects dramatically exceeding both cost and delivery time estimates (see Meyer, 2023: 11).

## GERMANY’S VIEW ON RECENT EU DEFENCE INDUSTRIAL INITIATIVES

The EU has recognised that the status quo of the EDTIB is unsustainable. The fragmented defence market prevents reaping economies of scale and undermines military interoperability. Seizing the window of opportunity opened by Russia’s war, the European Commission and the European External Action Service launched several initiatives for Europeans to spend better together and deepen defence industrial cooperation (Koenig and Schütte, 2023). Whether these initiatives will have a structural impact depends not least on the political and financial support by key member states.

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<sup>4</sup> Currently, these include Australia, Japan, New Zealand, and Switzerland.

<sup>5</sup> Also confirmed in interviews, August 2023.



The German government has, in principle, welcomed these EU efforts. As its main contributor, Germany has supported repeatedly increasing the funds for the European Peace Facility to reimburse member states' weapons deliveries to Ukraine, even though resistance toward further increases is mounting in Berlin.<sup>6</sup> The Federal Government also supported the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA) – a short-term financial instrument worth 300 million euro to consolidate states' demands filling the most urgent capability gaps. Together with several Central and Eastern European member states, **Germany pushed for designing the instrument in a flexible manner, allowing EDIRPA to subsidise equipment that contains components from third countries much to the frustration of France.** Germany also insisted on similar flexibility to open the Ammunition Initiative for suppliers from third countries, again disagreeing with Paris.

The Federal Government did side with France and others in opposing key elements of the Commission's proposal for the Act in Support of Ammunition Production (ASAP), aimed at facilitating the ramp up of production capacities. Alongside subsidising European companies, the Commission proposed new regulatory instruments to prioritise orders for European over non-European customers and require companies to provide sensitive data on their industrial capacities and supply chains. The German government opposed these new regulatory instruments on two grounds: first, it suggested that priority orders would conflict with German contract law and, second, it considered these new powers an unjustified competence expansion by the Commission.

EDIRPA and ASAP are short-term instruments and test cases for the European Defence Investment Programme (EDIP). EDIP is expected to be the EU's long-term joint procurement instrument, but the Commission has repeatedly delayed publishing its draft proposal. The German government does not have a consolidated position yet, as many details remain unclear. But certain positions are crystallising. Unlike on EDIRPA, Germany will likely follow France on EDIP in (almost) exclusively using the instrument to procure from European suppliers. The logic is that with its long-term focus, EDIP does not involve the same degree of urgency and should hence predominantly benefit European industry. Beyond, the current government has only expressed what it opposes. Like with ASAP, it is not in favour of stronger regulatory powers for the Commission over defence companies. The German Finance Ministry, in particular, is also against a VAT waiver for collaborative projects, as floated by the Commission, while the Federal Government is unwilling to provide significant extra funding

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<sup>6</sup> Interviews with officials, August 2023. Germany accounts for around 25% of the fund.

for EDIP as part of the impending mid-term review of the EU’s multi-annual financial framework (2021-2027).<sup>7</sup>

In sum, the German government has been cautious and relatively passive toward recent EU defence industrial initiatives. While it supports greater cooperation in principle, it remains sceptical of endowing the Commission with greater regulatory powers as it harbours doubts over the added value of its involvement. The governing coalition also wants to evaluate the initial results of EDIRPA and ASAP first before properly contemplating EDIP.

## CONCLUSION

Notwithstanding some steps in the right direction, Germany has not yet been the engine that drives EU defence industrial integration. Instead, it remains what a recent report by the Munich Security Conference called a “defense sitter,” stuck between the status quo ante bellum and a proper transformation of its defence policy (Koenig et al. 2023).

There are at least five impediments to Germany developing and pursuing a clear vision for the future of the EDTIB that need to be overcome. First, notwithstanding the special fund, there are serious question marks whether German defence spending will be sufficient to sustainably invest in its armed forces and the defence sector. Second, especially officials in the ministry of defence harbour deep-seated scepticism toward France and largely neglect the role of the EU in defence matters, as the military top brass have almost all been socialized within NATO structures (Bunde, 2021: 249). Third, many decision makers remain reluctant to break with Germany’s traditional opposition toward industrial strategy, hindering the EU initiatives. Fourth, German industry has so far been unwilling or unable to make a strong case for deepening European defence industrial cooperation. And fifth, German defence industrial decisions are largely driven by short-term concerns. There appears to be no strategy to reconcile short- and long-term priorities, national and European ambitions, and quests for greater resilience and competition.

At this critical juncture in European security, Germany cannot afford to stand idly by. The German government needs to overcome its piecemeal approach and clarify its strategic objectives for the future of the EDTIB. Only then can the EU make significant progress.

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<sup>7</sup> Interviews with officials, August 2023.

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# The Armament Industry European Research Group



2 bis, rue Mercœur - 75011 PARIS / France

+ 33 (0) 1 53 27 60 60

ares@iris-france.org

[iris-france.org/ares](http://iris-france.org/ares)



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